

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5367-01
Bill No.: HB 2088
Subject: Kansas City; St. Louis City; Taxation and Revenue - Income; Taxation and Revenue - General
Type: Original
Date: March 2, 2016

Bill Summary: This proposal repeals the earnings tax in the cities of Kansas City and St. Louis on December 31, 2017.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	\$0	\$0	Up to \$23,304,000
Total Estimated Net Effect on General Revenue	\$0	\$0	Up to \$23,304,000

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Local Government	\$0	(Up to \$194,200,000)	(Up to \$388,400,000)

FISCAL ANALYSIS

ASSUMPTION

Oversight was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

Officials at the **Office of Administration's Budget and Planning Division (B&P)** assume this bill will not impact total state revenues. This bill will not impact the calculation under Article X, Section 18(e).

This bill would eliminate the 1 percent earnings tax in St. Louis City and Kansas City beginning January 1, 2018. Using data provided by St. Louis City, B&P determined that the average earnings and payroll tax collections from 2005-2014 was \$191.8 million. Therefore, eliminating the earnings tax in St. Louis City could reduce city revenues by \$95.9 million in FY18 and \$191.8 million in FY19 and thereafter.

Using data provided by Kansas City, B&P determined that the average earnings and payroll tax collections from 2006-2015 was \$198.0 million. Therefore, eliminating the earnings tax in Kansas City could reduce city revenues by \$99.0 million in FY18 and \$198.0 million in FY19 and thereafter.

In response to similar legislation this year, SB 575, officials at the **City of St. Louis (STL)** assumed the Earnings Tax is the City's single largest source of revenue amounting to a third of the general fund budget. Total receipts in the previous fiscal year exceeded \$160 million. The proposed legislation would eliminate the Earnings Tax beginning in the 2017-18 fiscal year. A loss of revenue of this magnitude would be a devastating blow to the City's credit and fiscal condition and seriously impair the City's ability to provide basic City services. (for order of magnitude see illustration below)

Earnings tax receipts are:

More than the total FY15 general fund costs of the Police Department @ \$152.2 million

ASSUMPTION (continued)

Or about the equivalent of the costs of these services:

Fire Department - \$63.8 million
Corrections & Juvenile Detention - \$56.3 million
Forestry Div. trimming / weed & debris - \$7.1 million
Park Maintenance - \$7.6 million
Street Maintenance & Repair - \$6.0 million
Street and Alley Lighting - \$5.8 million
Equipment service vehicle maint./repair - \$15.0 million
Total Cost of Services - \$161.6 million

In response to similar legislation this year, SB 575, officials at the **City of Kansas City (CKC)** assumed the elimination of the earnings tax will increase the cost of borrowing. The City has experienced an increase in the interest rate it must accept when selling bonds supported by the general fund because of the current instability built into an every-5-year approval cycle. This increase in cost of borrowing will accelerate if there is less revenue available upon which to base the City's debt obligations.

The CKC assume this bill would eliminate the earnings tax currently assessed and collected in the City beginning January 1, 2018. The figures upon which the following information is provided represent annual amounts as currently estimated. The amounts would be marginally larger with a small amount of anticipated growth. The figures used are, therefore, current to avoid any suggestion that they are artificially inflated.

The City's current fiscal year budget anticipates \$228.4 million from the earnings tax. In Missouri FY 18-19, one-half of the City's annual collections would be lost. In Missouri FY 19-20, all of the tax revenue would be lost. The earnings tax represents about 40% of the City's general fund. That is, money that is available for any use and is not already devoted to specific uses, such as a capital improvements sales tax, public safety sales taxes, transportation sales tax supporting the KC Area Transportation Authority, parks and recreations sales tax, and a special health services property tax.

Officials at the **State Tax Commission** assume no fiscal impact from this proposal.

In response to similar legislation this year, SB 575, officials at the **Office of the Secretary of State** and the **Department of Revenue** each assumed no fiscal impact to their respective agencies from this proposal.

ASSUMPTION (continued)

In summary, **Oversight** assumes the following:

CKC

Total Earnings Tax Revenue for one year = \$228.4 million
 FY 2018 impact to the City = a loss of \$114.2 million starting January 1, 2018
 FY 2019 impact to the City = a loss of \$228.4 million

STL

Total Earnings Tax Revenue for one year = \$160 million
 FY 2018 impact to the City = a loss of \$80 million
 FY 2019 impact to the City = a loss of \$160 million

Oversight will further assume that earnings taxes paid are used as a deduction on tax returns submitted to the state. Therefore, Oversight will assume that a reduction in earnings taxes paid to the City of St. Louis and Kansas City would result in a reduction in itemized deductions which would, in turn, result in additional Missouri Income taxes paid (6 percent income tax rate of the amounts above). Oversight notes that not all persons currently paying earnings taxes would itemize deductions on their tax returns; therefore, Oversight will reflect additional tax collections to the state of "Up to" the amounts indicated above. These amounts will be reflected in the next fiscal year following the local government loss of income.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018 (6 Mo.)	FY 2019
GENERAL REVENUE FUND			
<u>Income</u> - to Department of Revenue - reduced deductions paid on itemization of earnings tax	<u>\$0</u>	<u>\$0</u>	Up to <u>\$23,304,000</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>\$0</u>	Up to <u>\$23,304,000</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018 (6 Mo)	FY 2019
LOCAL POLITICAL SUBDIVISIONS			
<u>Loss</u> - Kansas City - of revenue by eliminating the Earnings Tax	\$0	(Up to \$114,200,000)	(Up to \$228,400,000)
<u>Loss</u> - St. Louis City - of revenue by eliminating the Earnings Tax	<u>\$0</u>	<u>(Up to \$80,000,000)</u>	<u>(Up to \$160,000,000)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>(Up to \$194,200,000)</u>	<u>(Up to \$388,400,000)</u>

FISCAL IMPACT - Small Business

There could be a direct fiscal impact to small businesses as a result of this proposal.

FISCAL DESCRIPTION

Currently, Kansas City and St. Louis impose an earnings tax and can continue the tax as long as the tax is reaffirmed by voters every five years. This bill eliminates the earnings tax after December 31, 2017 and removes the authority to impose the tax by submitting the tax to the voters of the city.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

Office of the Secretary of State
Office of Administration
 Budget and Planning Division
State Tax Commission
Department of Revenue
City of St. Louis
City of Kansas City



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March 2, 2016

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March 2, 2016